



Faculty of Cognitive Sciences and Human Development

**THE STUDY OF THE RELATIONSHIP BETWEEN COMPENSATION
PRACTICES AND EMPLOYEES' RETENTION IN ONE OF THE
MANUFACTURING INDUSTRIES IN MUKAH, SARAWAK**

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Bachelor of Science

(Human Resource Development)

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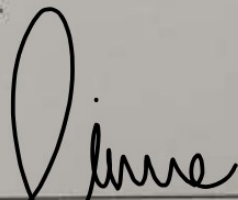
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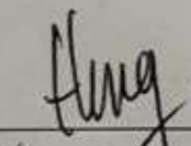
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**THE STUDY OF THE RELATIONSHIP BETWEEN COMPENSATION PRACTICES
AND EMPLOYEES' RETENTION IN ONE OF THE MANUFACTURING
INDUSTRIES IN MUKAH, SARAWAK**

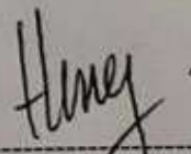
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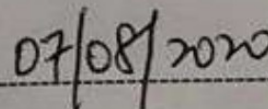
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ABSTRACT

This study aimed to identify the relationship between compensation practices and employees' retention among employees in one of the manufacturing industries. In this survey, quantitative method was applied and questionnaires were distributed randomly to the respondents. A four-point Likert scale was used to measure all the items in the questionnaires. The study involved 44 respondents which conducted at the manufacturing industry in Balingian-Mukah, Sarawak. Statistical Package for the Social Science (SPSS) was used as a tool to interpret and analyze the collected data. Descriptive Statistics was used to describe demographic information of respondents whereas Pearson Correlation analysis was conducted to test the strength relationship between independent variables (basic salary, bonus, allowance and fringe benefit) and dependent variable (employees' retention). Multiple Linear Regression was carried out to determine the dominant factors that are associated with employee' retention. The findings of the study revealed that basic salary, bonus, allowance and fringe benefit has positive relationship with employees' retention. Bonus was the most dominant factors that affecting employees' retention. The outcome of this research is it acts as a guideline for organization especially for HR practitioner to review and understand how to improve and strengthen their compensation policies to enhance employees' contribution as well as retention. Leaders in organization should be more consciousness and awareness on compensation practices to attract and retain employees to stay with the organization for long-term. In future, researchers are also encouraged to conduct similar research through qualitative method, increased sample size and explore other factors that influence with employees' retentions to filling up the research gap.

Keywords: *Basic Salary, Bonus, Allowance, Fringe Benefit, Employees' Retention*

ABSTRAK

Kajian ini bertujuan untuk mengenal pasti hubungan antara amalan pampasan dan pengekalan pekerja di antara pekerja di salah satu industri pembuatan. Dalam tinjauan ini, kaedah kuantitatif diterapkan dan borang soal selidik diedarkan secara rawak kepada responden. Skala Likert empat mata digunakan untuk mengukur semua item dalam soal selidik. Kajian ini melibatkan 44 responden yang dilakukan di industri pembuatan di Balingian-Mukah, Sarawak. Pakej Statistik untuk Sains Sosial (SPSS) digunakan sebagai alat untuk menafsirkan dan menganalisis data yang dikumpulkan. Statistik Deskriptif digunakan untuk menerangkan maklumat demografi responden sedangkan analisis Korelasi Pearson dilakukan untuk menguji hubungan kekuatan antara pemboleh ubah bebas (gaji asas, bonus, elaun dan faedah tambahan) dan pemboleh ubah bersandar (pengekalan pekerja). Multiple Linear Regression dilakukan untuk menentukan faktor dominan yang berkaitan dengan pengekalan pekerja. Hasil kajian menunjukkan bahawa gaji asas, bonus, elaun dan faedah awal mempunyai hubungan positif dengan pengekalan pekerja. Bonus adalah faktor paling dominan yang mempengaruhi pengekalan pekerja. Hasil penyelidikan ini adalah ia bertindak sebagai pedoman bagi organisasi terutama bagi pengamal HR untuk mengkaji dan memahami bagaimana memperbaiki dan memperkuat polisi pampasan mereka untuk meningkatkan sumbangan pekerja dan pengekalan. Pemimpin dalam organisasi harus lebih peka dan sedar mengenai amalan pampasan untuk menarik dan mengekalkan pekerja untuk terus bersama organisasi dalam jangka masa yang panjang. Pada masa depan, para penyelidik juga didorong untuk melakukan penyelidikan serupa melalui kaedah kualitatif, meningkatkan ukuran sampel dan meneroka faktor lain yang mempengaruhi dengan pengekalan pekerja untuk mengisi jurang penyelidikan.

Kata kunci: *Gaji Asas, Bonus, Elaun, Faedah Tambahan, Pengekalan Pekerja*

CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter will discuss the background of study and problem statement which included empirical gap, practical gap and theoretical gap. It is then followed by objectives, research hypothesis, conceptual framework, significance as well as limitation of the study. The definition of terms which covered conceptual definitions and operational definitions are discussed.

1.1 Background of study

Employees are considered as one of the key resources in ensuring organizational performance. Employees play an important role as they can determine the success or failure of an organization centre on the potential of the employers to attract, retain and reward appropriately talented and competent employees (Chiekezie, Emejulu & Nwanneka, 2017). Every successful organization must obtain a fixed level of commitment and effort from their employees to enhance competitive advantage. It cannot be denied that employees are the precious asset of a company because of their knowledges, skills, experiences and abilities they have that help organization to achieve attainment goals (Siti Faridah Sulaiman & Nur Husna Mohd Hussain, 2018). An organization will be unsuccessful if employers cannot maintain and retain their employees. Therefore, organization must understand the importance of retaining these skilled employees. They must have their ideas, feelings, thinking and desire to influence the will of the employees to remain within organization. However, it is difficult for an organization to be successful in making their employees satisfied with the job. The wide variety of different reasons that people want to work with the company, some emphasizes on the reward and benefits while others may focus on job challenges (Gupta, 2014). In attempt to ensuring optimal level of satisfaction and retention, organization need to

find out a variety of appropriate ways to implement strategies and structures to ensure their employees work for a longer period of time (Osibanjo, Adeniji, Falola & Heirsmac, 2014).

According to Walia and Bajaj (2012), implementation such as compensation packages, developing opportunities to promote themselves and offering of better wages can enhance satisfaction of employees and increase the level of commitment. Najihah Abdul Rahim, Malina Hanum Mohd Kamal and Mat (2011) argued that the satisfaction of the employee is linked to his compensation package. Besides that, Osibanjo (2012) also stated that compensation package is the basic function that affect the degree of readiness that employees remain in their organization. Employee' willingness to stay with the organization largely depend on how an organization fulfil their needs. Thus, compensation and benefits are critical components that act as organization's strategic tool to attract, motivate and retain high-talent employees (Larkin, Pierce & Gino, 2012).

Compensation refers to the total fixed amount of income paid to employees by an employer as an end-result of work performed to the organization (Hasibuan, 2009). It includes direct compensation and indirect compensation. Direct compensation is a directly monetary reward to employee from employer such as basic salaries and bonuses whereas indirect compensation is the non-monetary reward such as allowances and insurances (Manurung, 2017). Compensation is considered an important matter as it has direct impact to the effectiveness and competitiveness of company and well-being of employees. It serves as significant instrument for employer to determine whether employee tend to remain with employer and stay with company with the perceptions of fairness (Mashal Ahmed & Abu Bakar Ahmed, 2014). Compensation can influence employees' motivation, productivity and performances. Remuneration acts as a form of appreciation which provided to employees for their contribution to encourage them work as best as they can to obtain goal and thus enhance productivity of company (Rahman & Syahrizal, 2018).

Furthermore, good compensation package also has high impact on employees' retention. The good compensation and benefits package will influence the comfort and desire employees to remain in the organization. Employee retention is the techniques and measures that an organization use to avoid valuable employees from leaving their job. Retention involves employer take action to retain and stimulate talented and competent employees to stay in an organization for a maximum period of time (Barua, 2013). Organization needs to retain those excellent and expertise employees to handle certain tasks that help organization succeed. In today's globalization, majority of the challenges that had been faced by organization is employees' retention (Sinha & Sinha, 2012). Evidences claimed that retaining skilled employees has become a consequential concern to the employers particularly in the case of higher turnover rate of workers (Haines, Jalette & Larose, 2010). Turnover intention can be expressed as the employee tends to leave the organization and desire to find a better job (Rahman & Syahrizal, 2018). Akgunduz (2018) had indicated several factors that caused employees desire to move their organization to another work included job satisfaction, career development and compensation factors. The primarily factors that employees' intention to leave was the organization failed to pay attention to those skilled workers. The research conducted by Silaban and Syah (2018) had stated that the higher compensation received by employees, the lower the intention to leave. On the other hand, when the employee received lower compensation, the higher intention to leave the organization. Employers who do not encourage and contribute to provide some benefits such as bonuses, wages and allowances to employees when they have achieved their mission. As a result, employees will lack of satisfaction and interest with their job and employees will decide to change their job.

Therefore, compensation in today's organization has become a major deliberation in Human Resource Management so that employers can retain the knowledgeable employees to accomplish the goals and enhance effectiveness of organization (Muguongo, Muguna &

Muriithi, 2015). Compensation acts as motivator and determinator that helps an organization to run effectively and enhance the advantage competitive. The good compensation package will assist organization to attract, retain and sustain the best talented workers for long-term business. Employees will continuously serve for the organization if the organization pay attention to their effort and workforce and understand what they need.

1.2 Problem statement

1.2.1 Empirical gap

According to the survey from human resource (2019), it got high turnover rate in all industries which above 3.7% and exceed normal rate. The rate of employees' turnover is measured by using Bureau of Labour Statistics (BLS) numbers. The survey demonstrated the rate of employees' turnover had expanded over the time of the past review. The increasing of numbers of resignations of senior workers become a thing of concern and it is clearly mentioned that the managements have not tackle this problem. There had been consistent mobility of those highly skilled workers from one company to another because they are hardly stay for long in one organization (Osibanjo & Adenji, 2014). As a result, these phenomena bring effect in high turnover rate and absenteeism that causing skill shortages which in turn causing substantial resourcing problems to employers. Therefore, it is essential to identify how the compensation factors can influence the employees' retention to stay with their organization for a maximum period of time an prevent mobility.

1.2.2 Practical gap

In today's world, employers face challenges in holding proficient employees (Inda & Mishra, 2016). Employers are struggling to find, hire and attract talented people at all levels to keep their organization at pace due to the new pressure on pay rates and compensation policies for employees. Chepchumba and Kimutai (2017) stated that the wrong setting of the compensation strategy that does not meet with the needs and perspective of the employees

may lead to decreased performance. Employer did not utilize the capability of employees and thus it may cause “drain brain” which can destroy the effectiveness of the organization. The author further found that the compensation is important but it is not only about monetary whereas it serves as a symbol that an organization how to value its employees to obtain organizational goals.

1.2.3 Theoretical gap

Nowadays, an individual who works his or her entire career for the similar business is becoming less and less normal. When employees found that they received poor benefits, they likely become dissatisfied and ill-motivated with the organization. They will desire to leave and start to look for better compensation package in another working environment. Shukla & Sinha (2013) mentioned that one of the common factors that cause high employee turnover rates is low pay and benefits packages. They have high expectation on the benefits that they receive. Employees cannot receive same pay as what they had contributed to the organization.

1.3 Research Objective

1.3.1 General Research Objective

To study the relationship between compensation practices and employees’ retention.

1.3.2 Specific Objective

1. To study the relationship between basic salary and employees’ retention.
2. To study the relationship between bonus and employees’ retention.
3. To study the relationship between allowances and employees’ retention.
4. To study the relationship between fringe benefits and employees’ retention.
5. To identify the most dominant factor affecting employee’s retention.

1.4 Research Hypothesis

H01: There is no relationship difference between basic salary and employees' retention.

H02: There is no relationship difference between bonus and employees' retention.

H03: There is no relationship difference between allowances and employee's retention.

H04: There is no relationship difference between fringe benefits and employee's retention.

H05: There is no dominant factors affecting employee's retention.

1.5 Conceptual Framework

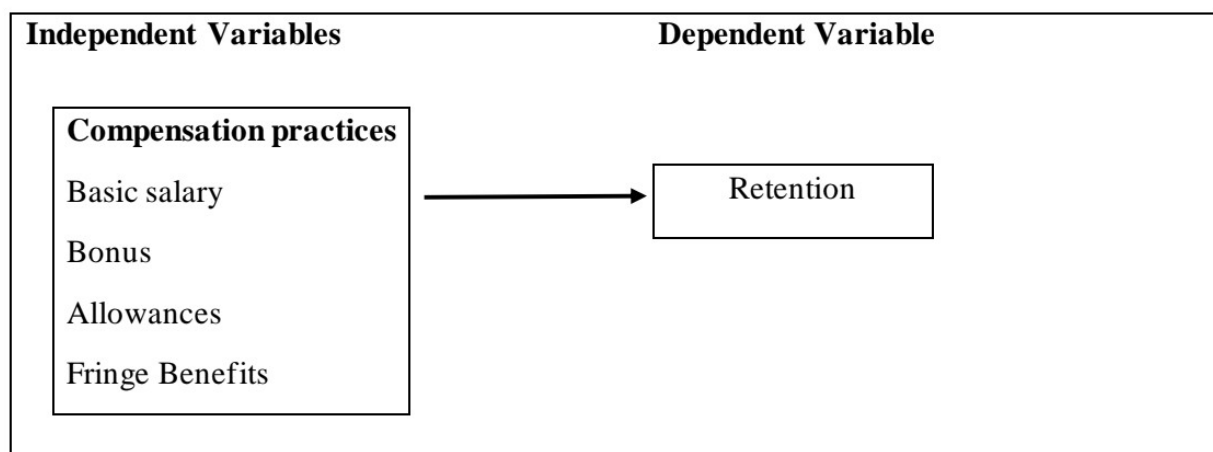


Figure 1.1 *Conceptual Framework of the relationship between independent variables and dependent variables*

Source: Osibanjo, Adeniji, Falola & Heirsmac (2014)

1.6 Significance of the study

1.6.1 Significance to Organization

This research was beneficial to organization that they can explore a new way to evaluate the outcome of compensation practices in organizations. The organization can reveal all the policies and strategies that affected employees' retention and thus to overcome the challenges of employees' turnover. Hence, the findings of this study can assist organization to clarify and identify the best and efficient compensation practices to retain and attract valuable workers in their workplace. As a result, organization can reduce turnover costs and save costs especially in recruitment and selection process if there were high level of retention of employees.

1.6.2 Significance to Human Resource practitioners

Through this research, human resource practitioners will learn how to utilize talented staff to increase the employees' satisfaction and performance. They can concentrate on effective human resource interventions that bring positive impacts on employee retention and create a powerful workforce. Therefore, it can retain employees work for longer period of time, enhance productivity as well as performance of the organization that ensure organization run in a long-term business.

1.6.2 Significance to Body of Knowledge

This research will be useful for future study as a guidance to make improvement in the related topic. Apart from that, the theory could be a reference for future researchers have a better understanding to investigate the factors that affecting employees' retention.

1.7 Limitations of the study

The research should be interpreted recognizing its limitation. The sample size of this study is too small which cannot represent the whole population. The results of findings may be specific only to the one of the manufacturing industries in Mukah, Sarawak but may not generalized to all the manufacturing industries. Furthermore, variations in the knowledge of the respondents also become a limitation in this study because respondents have different perception in answering the questionnaire. It causes the data collection cannot be clarified. It indicates that results may not be accurate.

1.8 Definition of term

1.8.1 Compensation

Conceptual definition: Compensation is a systematic approach to providing financial value and tangible services and benefits to employees which equivalent to their work performed (HR Guide, 2015).

Operational definition: Compensation refers to the total amount of monetary and non-monetary rewards provided to workers that receives from employer.

1.8.2 Basic salary

Conceptual definition: A constant amount of gross payment that paid monthly to an employee who done their job (Osibanjo, Adeniji, Falola & Heirsmac, 2014).

Operational definition: Salary is a type of payment of money that an employer paid to employee.

1.8.3 Bonus

Conceptual definition: Bonus is an extra paid to employees that motivate and provide them the social security (Gupta, 2014).

Operational definition: Bonus is the reward paid on exceeding job performance to enhance productivity.

1.8.4 Allowance

Conceptual definition: Allowance included house allowance, pensions, sick pay and insurance cover that provided to employees (Gupta, 2014).

Operational definition: Money that given to an individual regularly to pay specific particular.

1.8.5 Fringe Benefits

Conceptual definition: Fringe benefits are additional benefit that usually given to all employees of an organization which is not directly related with wages such as educational assistance (Osibanjo & Adeniji, 2014).

Operational definition: Fringe benefit is an extra benefit supplementing an employees' money wage or salary.

1.8.6 Retention

Conceptual definition: Retention is defined as a process or possession or use of something or action of employers to hold their employees in position or company (Inda, 2016).

Operational definition: This study defines retention as the ability of an organization to retain its employees.

1.9 Summary

This chapter had covered the background of study, statement of problem, objective of study, research question and research hypothesis. Besides that, conceptual framework is developed through the variable listed. The significant of study clarifies the purpose of this research, limitation of study significant that the limitation when doing the research and definition of term emphasizes the term inside the research.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

In this chapter, it attempts to review all the relevant literature and research related to the relationship between the compensation practices and employees' retention. The chapter first discuss on theory and model that would support this study. Moreover, issues related to past findings and topics were also laid down in this chapter.

2.1 Discussion of Issues Related to Theory/Model

2.1.1 Expectancy Theory

Compensation practices can influence employees' retention and it is a strategy that used to motivate employee towards a greater performance. According to Vroom (1964), expectancy theory focuses on the connection between rewards and behaviour. In this study, the rewards are the compensation such as basic salary, bonus, allowances and fringe benefits while the behaviour refers to employees' retention to stay with organization. Employees' satisfaction with their jobs are directly related to the extent to which employers provide them with such rewarding outcomes. According to the theory, motivation is product of the expectancy, valence and instrumentality. When individuals have certain manner in expectancy, they will work hard to reach a required level of performance to achieve desired target. As the result, individuals can earn and receive the rewards based on their performance level at their workplace. Effort plus performance and rewards equal to employee's retention. In other words, the degree of rewards can influence the quality and quantity of work and thus will affect productivity. Therefore, it is crucial to examine how to give impulse in order to promote work motivation and productivity. If the expectations do not match with the performance, dissatisfaction will occur. The compensation practices must attractive so it can encourage and stimulate employee's contributions to the organization.

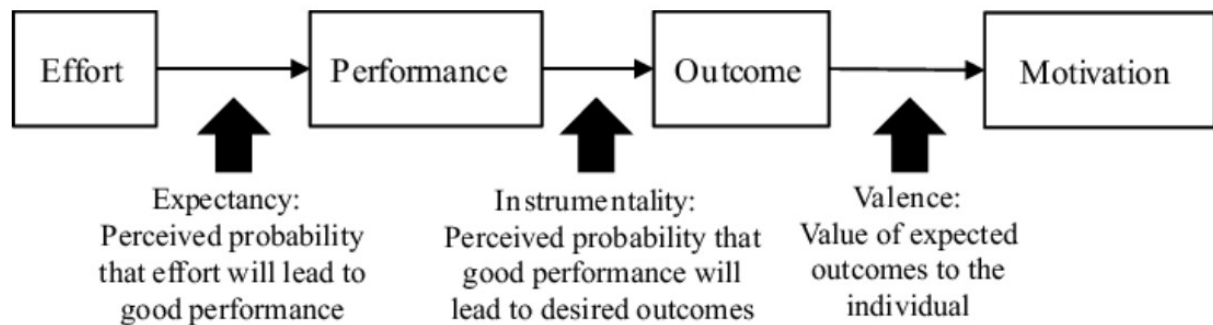


Figure 2.1 *Vroom's Expectancy Theory*

Source: Harris, Hanks, Line & McGinley (2017)

2.1.2 Employee Retention Connection (ERC) Model

The model that related to the study is Employee Retention Connection (ERC) model. ERC models concentrate on three primary organizational experience that drive employee's retention which are stimulating work, leadership and recognition and reward (Choudhary, 2016). According to the model, the organization should recognize and reward their employees when they done their job well. Organization should reinforce desired behaviours and focus on recognition. The reward and recognition systems will encourage employees to fit with the organization's culture, increase their competitive advantage and thus enhance their motivation. They will be willing to stay with the organization for a long period of time. Moreover, ERC model ensure organization culture is aligned with the expectations of the employees particularly when there is an impact on organizational performance. This can be explained that employee's retention has a connection with the reward system such as compensation that employee's expectation to perceive. ERC model provides the best chances for employees to boost their competency and relevance in offering to challenges in the organization. Thus, the model showed it is important to develop a retention plan to retain employees and keep turnover low.